

Message Text

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ACTION AID-59

INFO OCT-01 EUR-12 ISO-00 EB-08 TRSE-00 OMB-01 L-03
/084 W

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P 101127Z AUG 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC PRIORITY 6650

C O N F I D E N T I A L SECTION 1 OF 4 LISBON 5951

DEPT PASS TREASURY FOR SYVRUD

E.O. 11652: GDS
TAGS: EFIN ECON PO
SUBJ: PORTUGAL'S BALANCE OF PAYMENTS

REFS: A) LISBON 3881 B) STATE 187541 C) STATE 194069

1. LISTED BELOW ARE THE EMBASSY'S PROJECTIONS FOR PORTUGAL'S
BALANCE OF PAYMENTS DURING THE PERIOD 1978-82. AMONG THE
ASSUMPTIONS UNDERLYING THESE PROJECTIONS ARE:
A. AN AVERAGE RISE IN INTERNATIONAL DOLLAR PRICES OF 5 PERCENT
IN 1978, 7 PERCENT IN 1979, AND 5 PERCENT TO 6 PERCENT THEREAFTER.
B. WORLD TRADE EXPANSION OF 3-4 PERCENT, IN REAL TERMS, DURING
EACH OF THE YEARS.
C. PORTUGUESE GNP ANNUAL REAL GROWTH OF 0-2 PERCENT DURING
1978 AND 1979, AND AN AVERAGE 4 PERCENT THEREAFTER.
D. CONTINUED DEPRECIATION OF THE ESCUDO SUFFICIENT TO MAIN-
TAIN PORTUGAL'S COMPETITIVE POSITION.
E. A RELATIVELY TIGHT DOMESTIC CREDIT POLICY THROUGHOUT THE
PERIOD.
F. AN AGGRESSIVE GOP EFFORT TO PROMOTE EXPORTS.
G. RELATIVELY PEACEFUL POLITICAL EVOLUTION, INCLUDING
NO SERIOUSLY DISRUPTIVE LABOR/MANAGEMENT CONFRONTATIONS.

2. TABLE FOLLOWS.

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PORTUGAL'S BALANCE OF PAYMENTS

(MILLIONS OF DOLLARS)

1978 1979 1980 1981 1982

I. CURRENT ACCOUNT -1,290 -1,210 -1,210 -1,100 -870
A. TRADE BALANCE (FOB) -2,380 -2,460 -2,550 -2,575 -2,565
1. IMPORTS -4,630 -5,000 -5,500 -5,995 -6,535

2. EXPORTS	2,250	2,540	2,950	3,420	3,970
B. SERVICES	-160	-150	-170	-155	-65
1. TOURISM	375	465	545	640	775
A. EXPENDITURES	-150	-165	-180	-195	-225
B. RECEIPTS	525	630	725	835	1,000
2. TRANSPORTATION					
(NET))	-120	-115	-120	-125	-125
3. INTEREST PAYMENTS					
(NET)	-365	-445	-535	-610	-655
4. OTHERS (NET)	-50	-55	-60	-60	-60
C. UNILATERAL TRANSFERS					
(NET)	1,250	1,400	1,510	1,630	1,760
II. CAPITAL ACCOUNT	926	457	456	418	309
A. SHORT TERM (NET)	200	-	-	200	250
B. MEDIUM & LONG TERM	726	457	456	218	59
1. DEBT AMORTIZATION	-445	-390	-423	-629	-786
2. PRIVATE FOREIGN					
INVESTMENT (NET)	100	150	175	175	175
3. PRIVATE FINANCIAL					
CREDITS	500	300	250	250	250
4. WORLD BANK	30	40	60	60	60
5. COUNCIL OF EUROPE					
(RESETTLEMENT FUND)	15	-	-	-	-
6. EUROPEAN COMMUNITY					
(E.I.B.)	50	60	60	60	60
7. EFTA	25	25	25	25	25

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8. OTHER MULTILATERAL	15	5	5	5	5
9. U.S. BILATERAL	286	42	29	2	-
A. PL-480	36	-	-	-	-
B. CCC	210	-	-	-	-
C. AID	40	42	29	5	-

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10. OTHER BILATERAL	25	25	25	20	20
11. SUPPLIER CREDITS	125	200	250	250	250
III. DEFICITS	-364	-753	-754	-682	-561
IV. ANTICIPATED MONE-					
TARY MOVEMENTS	625	-396	-341	-528	-385
1. DISBURSEMENT MULTI-					
LATERAL LOAN PROGRAM	674	20	-	-	-
2. BANK OF PORTUGAL					
REPAYMENTS	-441	-435	-268	-413	-285
3. IMF	42	19	-73	-115	-100
A. RECEIPTS	42	69	27	-	-
B. PAYMENTS	-	-50	-100	-115	-100
4. GOLD SALES	350	-	-	-	-
V. RESERVE INCREASE					
(); SHORTFALL (-)	261	-1,149	-1,095	-1,210	-946

3. EXPLANATORY NOTES.

A. TRADE ACCOUNT. THE PROJECTIONS MAINTAIN FOR 1978 THE TRADE PROJECTIONS CONTAINED IN REF A. ADMITTEDLY, RESULTS FOR THE FIRST SIX MONTHS INDICATE THAT THE GOP WILL HAVE CONSIDERABLE DIFFICULTY RESTRAINING IMPORTS TO THE PROJECTED GROWTH LEVEL OF 2 PERCENT. AS DOMESTIC DEMAND CONTINUES TO DECLINE AND AS DOMESTIC CREDIT BECOMES INCREASINGLY SCARCE, HOWEVER, INDUSTRIALISTS ARE LIKELY TO REDUCE THEIR

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IMPORTS AND TO CUT THEIR STOCKS SHARPLY. ON THE OTHER HAND, EXPORTS DURING THE FIRST HALF OF 1978 GREW SOMEWHAT FASTER THAN NECESSARY TO MEET OUR PROJECTION. IF THEY CAN SUSTAIN THAT LEVEL OF GROWTH, THE DEFICIT FOR THE YEAR SHOULD BE VERY NEAR THE GLOBAL TRADE DEFICIT PROJECTED HEREIN. IF INDUSTRY IS TO SUPPORT AN EFFECTIVE EXPORT DRIVE AND THE CONOMY IS TO SATISFY ITS CONSUMPTION NEEDS AND AN EXPANDED INVESTMENT PROGRAM, IMPORTS WILL HAVE TO RISE MARKEDLY AFTER THIS YEAR. THESE PROJECTIONS ALLOW AN IMPORT GROWTH OF 8 PERCENT IN 1979 AND 9 TO 10 PERCENT IN SUBSEQUENT YEARS. EXPORTS, ON THE OTHER HAND, WILL HOPEFULLY EXPAND BY SOME 13 PERCENT IN 1979 AND, AS NEW INVESTMENTS TAKE EFFECT, BY 16 PERCENT IN EACH SUBSEQUENT YEAR.

B. TOURIMS. THE EMBASSY HAS REDUCED THE PROJECTED 1978 TOURISM RECEIPTS FROM THE LEVEL PRESENTED IN REF A.

IT DID SO BECAUSE NEW, REVISED 1977 DATA SHOW THAT LAST YEAR'S RECEIPTS WERE LOWER THAN PREVIOUSLY BELIEVED. IN ADDITION, AVAILABLE DATA FOR THE FIRST QUARTER OF 1978 REGISTERED A SMALLER THAN EXPECTED GROWTH RATE. NEVERTHELESS, EVEN THE REVISED PROJECTIONS CONTAINED HEREIN ALLOW FOR A 30 PERCENT EXPANSION OF TOURISM EARNINGS THIS YEAR AND 15 TO 20 PERCENT IN THE FOLLOWING YEARS.

C. INTEREST PAYMENTS. THIS PAYMENT SCHEDULE WAS WORKED OUT-WITH THE COOPERATION OF BANK OF PORTUGAL OFFICIALS. IT TAKES INTO ACCOUNT THE SHARP GROWTH OF THE EXTERNAL DEBT DURING THE PAST FEW YEARS, ANTICIPATED EXTERNAL DEFICITS IN COMING YEARS, AND THE RECENT RISE IN INTEREST RATES.

D. UNILATERAL TRANSFERS. THESE PROJECTIONS, FORESEEING A 10 PERCENT GROWTH IN 1978 AND 12 PERCENT IN 1979, ASSUME THAT EMIGRANTS WILL HAVE SUFFICIENT CONFIDENCE TO PURSUE NEW INVESTMENT OPPORTUNITIES. THE ANNUAL RATE OF GROWTH, NEVERTHELESS, IS EXPECTED TO DECLINE TO APPROXIMATELY 8
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PERCENT AFTER 1979.

E. SHORT-TERM CAPITAL. PORTUGAL USED SHORT-TERM BORROWINGS EXTENSIVELY DURING THE PAST TWO YEARS, AND PARTICULARLY IN 1977 WHEN THE NET INFLOW EXCEEDED \$500 MILLION. DURING THE FIRST QUARTER OF 1978, THE TOTAL ROSE BY SOME \$300 MILLION TO SLIGHTLY ABOVE \$1 BILLION, BUT HAS SINCE FALLEN BACK TO SLIGHTLY OVER \$900 BILLION. WE ANTICIPATE THAT THE GOP WILL SEEK TO MAINTAIN THIS NET INCREASE OF \$200 MILLION THROUGHOUT THE REMAINDER OF THE

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TO SECSTATE WASHDC PRIORITY 6652

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YEAR IN ORDER TO HELP OFFSET THE GROWING SQUEEZE ON DOMESTIC CREDIT. THIS NET INCREASE, HAVING OCCURRED DURING THE FIRST QUARTER, PRESUMABLY DOES NOT VIOLATE THE GOP/FUND ACCORD. NO GROWTH IN SHORT-TERM DEBT IS INCLUDED IN 1979 AND 1980 ON THE ASSUMPTION THAT FUTURE GOP/FUND AGREEMENTS WILL PRECLUDE SUCH INCREASES. SHOULD THE STABILIZATION AND SUBSEQUENT DEVELOPMENT PROGRAMS SUCCEED, HOWEVER, WE ANTICIPATE THAT SHORT-TERM DEBT WILL AGAIN BEGIN TO RISE IN 1981.

F. DEBT AMORTIZATION. THE SCHEDULE OF DEBT AMORTIZATION REFLECTS THE NATION'S RAPID ACCUMULATION OF DEBT, INCLUDING ROLL-OVERS, DURING THE PAST YEARS. THIS PROJECTION DISTINGUISHES BETWEEN CENTRAL BANK AND NON-CENTRAL BANK AMORTIZATIONS. THE GOVERNMENT'S ATTEMPT TO CHANGE THE DEBT STRUCTURE BY INCREASING ITS AVERAGE TERM HAS ASSISTED SOMEWHAT IN REDUCING ANTICIPATED PAYMENTS DURING THE NEXT SEVERAL YEARS. THE BURDEN, HOWEVER, IS STILL SUBSTANTIAL AND WILL BECOME EVEN HEAVIER AFTER 1980.

G. PRIVATE FOREIGN INVESTMENT. THE EMBASSY'S PROJECTION ASSUMES A RATHER SUBSTANTIAL IMPROVEMENT IN PRIVATE SECTOR CONFIDENCE. A NUMBER OF FIRMS ARE CURRENTLY STUDYING INVESTMENT POSSIBILITIES, BUT FEW HAVE ACTUALLY MADE FINAL DECISIONS. WE ANTICIPATE, HOWEVER, THAT THE RATE OF INVESTMENT WILL RISE FAIRLY RAPIDLY OVER THE NEXT
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FEW YEARS UNLESS THE COUNTRY EXPERIENCES SERIOUS POLITICAL DISTURBANCES.

H. PRIVATE FINANCIAL CREDITS. THE GOP HAS NEGOTIATED TWO MAJOR LOANS WITH PRIVATE BANKING CONSORTIA. OUR 1978 PROJECTION TAKES THOSE AGREEMENTS FULLY INTO ACCOUNT. IF THE STABILIZATION PROGRAM SUCCEEDS, THE GOP WILL LIKELY BE ABLE TO REPEAT, THOUGH ON A SMALLER SCALE, SIMILAR OPERATIONS DURING THE COMING YEARS.

I. MULTILATERAL ASSISTANCE. DIFFERING VIEWPOINTS EXIST AS TO THE GOP'S FUTURE UTILIZATION OF PROJECT FINANCING. THESE ESTIMATES ATTEMPT TO STRIKE A BALANCE BETWEEN THE CURRENT OPTIMISTIC PROJECTIONS OF THE GOP AND THE RATHER DISAPPOINTING EXPERIENCE OF THE PAST TWO YEARS. THESE PROJECTIONS COULD PROVE TO BE SOMEWHAT PESSIMISTIC, BUT

ONLY IF THE GOP SUCCEEDS IN GREATLY IMPROVING ITS UTILIZATION CAPABILITY.

J. BILATERAL ASSISTANCE. SOMEWHAT THE SAME SITUATION EXISTS FOR BILATERAL AID. THE GOP HAS IMPROVED SOMEWHAT ITS RATE OF DRAWDOWN, BUT IT COULD DO EVEN BETTER. SINCE THE USG HAS TAKEN NO POLICY DECISIONS ON FUTURE PL-480 AND CCC CREDITS, WE HAVE NOT INCLUDED ANY ENTRIES FOR THEM BEYOND FY 1978.

K. SUPPLIER CREDITS. OUR PROJECTIONS FORESEE A CONSIDERABLE EXPANSION OF SUPPLIER CREDITS, WHICH REACHED AN ESTIMATED \$75 MILLION IN 1977. THESE RATHER OPTIMISTIC PROJECTIONS REST UPON EXPECTATIONS THAT DOMESTIC CREDIT
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RESTRAINTS WILL OBLIGE IMPORTERS TO RELY MORE EXTENSIVELY ON SUCH CREDITS, THAT INCREASED INVESTMENTS WILL REQUIRE MORE FOREIGN-FINANCED CAPITAL GOODS IMPORTS, AND THAT FOREIGN SUPPLIERS WILL OFFER MORE CREDITS IN ORDER TO COMPETE IN THE MARKET.

L. MONETARY MOVEMENT. THESE FORECASTS REFLECT ANTICIPATED MOVEMENTS STEMMING FROM POLICY DECISIONS THAT, WITH ONE EXCEPTION, HAVE ALREADY BEEN TAKEN. THE ONE EXCEPTION RELATES TO PROJECTED DRAWDOWNS/REPAYMENTS FROM AN ANTICIPATED THIRD CREDIT TRANCHE AGREEMENT WITH THE IMF. THIS REPRESENTATION DOES NOT, HOWEVER, DEAL WITH THE ISSUE OF PORTUGUESE ACCESS TO THE EXTENDED FINANCING FACILITY AND THE SUPPLEMENTARY FINANCING FACILITY.

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TO SECSTATE WASHDC PRIORITY 6653

C O N F I D E N T I A L SECTION 4 OF 4 LISBON 5951

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M. GOLD SALES. THESE PROJECTIONS INDICATE GOLD SALES OF \$350 MILLION IN 1978. THIS PROJECTION RESTS UPON EMBASSY UNDERSTANDING OF A PRESENT BANK OF PORTUGAL POLICY. ADMITTEDLY, CONCLUSION OF THE IMF AGREEMENT AND SUCCESSFUL NEGOTIATION OF ANCILLIARY LOANS ELIMINATE THE NEED FOR FURTHER GOLD SALES THIS YEAR. WE BELIEVE, HOWEVER, THAT BANK OF PORTUGAL WOULD PREFER TO CONTINUE ITS CURRENT RATE OF SALES AS A HEDGE AGAINST ANOTHER LIQUIDITY SQUEEZE IN 1979. IN ADDITION, BANK OF PORTUGAL OFFICIALS REGARD THE CURRENT MARKET PRICE AS HIGHLY ATTRACTIVE. NO PRE-DICTIONS ARE MADE FOR GOLD SALES IN 1979 AND SUBSEQUENT YEARS. SUCH SALES, IN ADDITION TO DEPENDING UPON THE EVOLUTION OF THE ECONOMY, WILL LIKELY REQUIRE ANOTHER GOP POLICY DECISION.

4. COMMENT FOLLOW BY SEPTTEL.
BLOOMFIELD

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Message Attributes

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